BUSINESS & FINANCE 〉 SMALL BUSINESS

Can I Sell a Portion of My Business?

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Last updated: 29 December 2016

Unlike what most people know, selling a business is not always an all-or-nothing situation.

While deciding upon the sale of your company, selling only a portion of your business may cross your mind. You may have questions about the process, such as, “Is it wise or is it common to sell only a part of a business?”

In this article, I’ll explore the decisions you will have to make when planning to sell your company, including whether selling only a portion of your business is a wise decision.

Why Businesses Sell Part of Their Companies

The sale of a portion of a business is called a divestiture. This typically happens when the management of a company decides they no longer want to operate a business unit or asset. So, why do businesses sell part of their companies?

First, a divestiture is a strategy in focusing on the core competencies of the company while spinning off other units so that the remaining units will thrive more. In other words, a business may divest divisions that are not part of its core operations to allow the entire company to focus on what it does best. A company’s strategic development plan may involve divesting or spinning off non-core businesses while strengthening core operations through disciplined acquisitions.

Second, companies sometimes make bad acquisitions and must later divest those investments. The buyer may be too large, and the new company may get lost after the acquisition and suffer from lack of intention. Sometimes, poor management decisions lead to a need to divest non-performing business units. Selling a weak division is a straightforward management decision.

Third, selling non-core divisions could also be a way to raise funds. A divestiture generates cash at the sale, and that cash is invested into more promising opportunities that yield higher returns. Also, a company’s parts/pieces are sometimes worth more than the company as a whole. Therefore, breaking up the company and selling its individual pieces can yield more than if the business was sold as a whole.

Should You Sell a Portion of Your Business?

The truth is, as a business owner, you don’t need to sell your entire company should you decide to retire or cash out. Oftentimes, with proper strategic planning, you can sell only a piece of your company, allowing you to generate additional funds for your retirement or to provide you with growth capital to invest in your business.

As the owner of a small or mid-sized company, the decision you face may not be as straightforward as it is for the management of large companies like General Electric or Hewlett-Packard Enterprise. In deciding whether to sell the whole company or only a portion of it, you should first examine the overall value of your business and of each division. Lower-

You have two main options in selling a portion of your business:

- **Selling a Percentage of Your Company** – This option involves selling a certain percentage of your entire company, usually structured as percentage of stock shares. This type of sale is often called a recapitalization, which is commonly used by business owners contemplating retirement but are not quite ready to go through it. These business owners may just want to take some cash off the table. In most cases, this investment is a majority equity investment, which gives the buyer effective control of your company.
- **Selling a Division or Unit** – This structure involves selling a division, unit, or category of your business. Many companies are being bought for strategic purposes. It is possible for a buyer to see a tremendous value in one division of your company while they wish to stay away from the other division. If this happens, you may consider a spin off of one division.

Let Your Whole Company Grow by Selling a Part of It

Many business owners have all of their wealth tied up in their company, even though doing so is risky. Selling a piece of your company allows you to create liquid assets while still maintaining complete control of the remainder of your business. It also allows you to focus your talents on a division that you think has the greatest potential.

Publicly owned companies, which are usually under intense pressure to meet projected quarterly earnings, commonly sell non-core divisions. Why do companies divest business units? It's a basic business concept — selling an unprofitable division may increase a company's earnings per share.

General Electric CEO Jack Welch was well-known for divesting businesses as a way of "pruning" the company to give way to the growth of the remaining business units within GE. In his first four years as GE's CEO, he already divested over a hundred business units accounting for about 20% of GE's assets. Welch had eliminated over 100,000 jobs through layoffs, forced retirements and divestitures. During Welch's tenure, GE's revenue had an outstanding growth from $26.8 billion to $130 billion.

Another example will be some web-based businesses that started with a retail store and then gradually transformed into a web-based operation with several retail stores. Splitting the business into two divisions, an online business and a retail division, may make the company easier to sell. Many buyers have a strong preference for online-based businesses and a strong aversion to retail businesses.

Other buyers have a lack of experience and expertise with online businesses and prefer to stick with retail. Selling your company's divisions separately not only makes your business

Many companies develop additional product lines as a part of their overall corporate growth strategy. In the process, many business owners create product lines that they later regret pursuing. The product line may not fit in with the overall operations or may make the business owner lose focus on his core business. In that case, selling the product line can make sense.

Additionally, many buyers search for strategic acquisitions and have specific criteria regarding which businesses they will consider. They may be interested in just one component of your business and may not pursue your business as a whole because your other divisions do not align with their strategy.

Recent, popular divestitures include the decision of Hewlett-Packard Enterprise CEO Meg Whitman to spin off and merge its non-core software assets with Micro Focus. This transaction was valued at about $8.8 billion.

Even small businesses can benefit from splitting up their company into separate divisions and selling them individually. For instance, some businesses require special licensing and splitting the business into two divisions may be prudent, as some companies may only be interested in the divisions that don’t require special licenses.

It can be wise to sell just part of your business. It is a fairly common practice, and it can free up cash for you to use as you see fit. Nonetheless, you should have a professional examine your business, so they can give you advice about the best way to proceed.

In your case, it may make more sense to sell your business as a whole. It depends on a number of factors that a professional can help you evaluate, including how much stake you want to have in the future of the company. Also, having your business valued as a whole and in pieces can help you decide what makes the most financial sense for your business. Either way, a professional should be able to assist you with selling your business in the way you want to do it, so don’t be afraid to seek professional advice.

Remember that selling a portion of your business doesn’t mean giving up something; it only means **letting go of a ‘part’ to let the ‘whole’ thrive**. After all, the cost of keeping a non-performing or non-core division could be much higher than the returns.

This article originally appears on Morgan & Westfield blog.

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